

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance practices. The Board considers such commitment essential to safeguard the interests of the Company's shareholders, employees and customers and to ensure the Company's sustained growth.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006, except for deviations from Code Provision A.4.1 (tenure of non-executive directors), Code Provision A.4.2 (retirement of directors by rotation) which has been rectified during the year, and Code Provision A.2.1 (segregation of the function of the Chairman and the Chief Executive Officer) for a limited period of time during the year as explained in the relevant paragraphs in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all directors have confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2006.

BOARD OF DIRECTORS

The board of directors (the "Board") currently consists of 7 Executive Directors and 3 Independent Non-executive Directors. Biographical details of members of the Board are set out in the section headed "Directors' Biographies" in the Report of the Directors.

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Group. Daily operations and administration are delegated to the management.

The Chairman, assisted by the Company Secretary, has ensured that the Board adheres strictly to all rules and requirements for its meetings and the maintenance of full and proper records. Procedures are also established for every director to have access to board papers and related information, to have the services of the Company Secretary, and to seek independent professional advice at the Company's expense upon reasonable request.

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During the year, four full regular board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of meetings attended	Attendance rate
<i>Executive Directors:</i>		
Mr. Cheung Chung Kiu (<i>Chairman</i>)	3/4	75%
Dr. Lam How Mun Peter (<i>Deputy Chairman & Managing Director</i>)	4/4	100%
Mr. Lam Hiu Lo	4/4	100%
Mr. Leung Chun Cheong	4/4	100%
Mr. Leung Wai Fai	4/4	100%
Ms Poon Ho Yee Agnes	3/4	75%
Mr. Wu Hong Cho (<i>appointed on 7 July 2006</i>)	2/2	100%
<i>Independent Non-executive Directors:</i>		
Mr. Lam Kin Fung Jeffrey	3/4	75%
Mr. Wong Wai Kwong David	2/4	50%
Mr. Wong Yat Fai (<i>appointed on 20 September 2006</i>)	1/1	100%

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, the rotation of directors at the annual general meeting held on 29 May 2006 was in accordance with the Company's previous Bye-laws which stipulated that at each annual general meeting not exceeding one-third of the directors for the time being shall retire from office by rotation provided that the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. To fully comply with this Code Provision, a special resolution was duly passed at the same annual general meeting to amend the Company's Bye-laws and that every director (including the Chairman and Managing Director) shall be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Prior to the re-allocation of the duties of the Board on 22 November 2006, Dr. Lam How Mun Peter was the Chairman and Managing Director of the Company. Nevertheless, after the re-allocation, the positions of Chairman and Managing Director are held by Mr. Cheung Chung Kiu and Dr. Lam How Mun Peter respectively. The division of responsibilities between Chairman and Managing Director is clearly defined and has approved by the Board on 8 December 2006. The Chairman provides leadership for the Board and ensures the effective operation of the Board while the Managing Director is responsible for the day-to-day management of the Company's business. As such, the Company has fully complied with such Code Provision.

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NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject for re-election. None of the existing non-executive directors are appointed for a specific term. However, all the non-executive directors shall be subject to retirement by rotation at the annual general meetings at least once every three years pursuant to the Company's Bye-laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules, and the Company considers all of the independent non-executive directors to be independent.

Following the resignation of Mr. Lam Ping Cheung on 22 June 2006 as independent non-executive director, audit committee and remuneration committee member of the Company, the number of independent non-executive directors and of audit committee members temporarily fell below the minimum number required under the Listing Rules, and a majority of the members of the Remuneration Committee was temporarily not formed by independent non-executive directors. Nevertheless, on 20 September 2006, Mr. Wong Yat Fai was appointed as independent non-executive director, audit committee and remuneration committee member of the Company. As such, the Company has complied with the relevant Listing Rules.

BOARD COMMITTEES

The Board has set up two Committees in accordance with the Code, namely the Remuneration Committee and the Audit Committee. The Board has not set up a Nomination Committee, the establishment of which is a recommended best practice by The Stock Exchange of Hong Kong Limited, and the function of nomination of new directors is undertaken by the full Board. Under the Company's Bye-laws, the Board has the power from time to time and at any time to appoint any person as a director either to fill a causal vacancy or as an addition to the Board, subject to authorization by the shareholders in general meeting. Such power is also exercised by the full Board in accordance with the Company's Bye-laws.

In addition to the Remuneration Committee and the Audit Committee, the Board has set up an Executive Committee comprising all executive directors on the Board. Under its terms of reference, the Executive Committee is responsible for the oversight of the management of the Group and the formulation of administrative guidelines.

REMUNERATION COMMITTEE

The major roles and functions of the Remuneration Committee of the Company are as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

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2. to determine the specific remuneration packages of all executive directors;
3. to review and approve performance-based remuneration;
4. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
5. to ensure that no director or any of his associates is involved in deciding his own remuneration; and
6. to advise shareholders of the Company on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 13.68 of the Listing Rules.

The Remuneration Committee currently comprises two executive directors and three independent non-executive directors. One meeting was held in 2006 and the attendance of each member is set out as follows:

Name of member	Number of meetings attended	Attendance rate
Mr. Cheung Chung Kiu (<i>Chairman</i>)	0/1	0%
Dr. Lam How Mun Peter	1/1	100%
Mr. Lam Kin Fung Jeffrey	1/1	100%
Mr. Wong Wai Kwong David	1/1	100%
Mr. Wong Yat Fai (<i>appointed on 20 September 2006</i>)	1/1	100%

The Remuneration Committee has review and discussed, among other things, on the remuneration packages (including the annual performance bonus policy) of the executive directors, the remuneration of the independent non-executive directors, the existing share option policy, the retirement benefit schemes, and the long-term incentive arrangement. The Remuneration Committee also recommended to the Board the remuneration packages of the executive directors of the Company.

AUDIT COMMITTEE

The major roles and functions of the Audit Committee of the Company are as follows:

1. to review the annual report and half-year report before submission to the Board;
2. to review the Group's financial and accounting policies and practices;
3. to review the financial controls, internal control and risk management systems;

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4. to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
5. to be primarily responsible for making recommendation to the Board on the appointment, of the external auditor, and to approve the remuneration and terms of engagement of the external auditor; and
6. to report to the Board on the matters set out in the code provision relating to Audit Committee as set out in the Code.

The Audit Committee currently comprises three independent non-executive directors. Two meetings were held in 2006 and the attendance of each member is set out as follows:

Name of member	Number of meetings attended	Attendance rate
Mr. Lam Kin Fung Jeffrey (<i>Chairman</i>)	2/2	100%
Mr. Wong Wai Kwong David	2/2	100%
Mr. Lam Ping Cheung (<i>resigned on 22 June 2006</i>)	1/1	100%
Mr. Wong Yat Fai (<i>appointed on 20 September 2006</i>)	N/A	N/A

Draft and final versions of minutes of the meetings of Audit Committee meetings are sent to all members of the committee for their comment and records respectively under the reasonable time after the relevant meeting. The minutes of the meetings of Audit Committee were tabled to the Board for noting and for adoption by the Board where appropriate.

The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial results for the year ended 31 December 2006. The Audit Committee reviews the financial statements before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs. Ernst & Young amounted to a total of HK\$9,313,397, of which HK\$1,800,000 was for audit services and HK\$7,513,397 for non-audit services relating to acting as the reporting accountants of all the component entities in the PRC property business acquired as detailed in the Company's circular dated 20 October 2006.

In addition, the remuneration paid/payable to the Company's previous auditors, Messrs. Deloitte Touche Tohmatsu amounted to a total of HK\$1,369,850, of which HK\$808,200 was for audit services and HK\$561,650 for non-audit services.

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INTERNAL CONTROL

The Board recognizes its overall responsibility for the establishment, maintenance and review of a system of internal control that provides reasonable assurance on the reliability and integrity of the Group's finance, operations, regulatory compliance and risk management.

Throughout the year 2006 the Company complied with the code provisions on internal controls as stipulated in the Code. In particular, during the year the Company conducted a review of the effectiveness of the internal control system of the Group. The directors are satisfied that the prevailing internal control systems as appropriate to the Group are in place and have been implemented properly and that no significant areas of improvement which are required to be brought to the attention to the members of the Audit Committee are revealed. The Audit Committee has reviewed the internal control and discussed the assessment bases with the management, and concurred that the Company has set up an effective internal control system to safeguard the assets of the Group.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The directors also ensure the timely publication of the financial statements of the Group. The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditors of the Company, Messrs. Ernst & Young, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 45 to 46.